



**Director of
Central
Intelligence**

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QCPAS/CIG

CY# 285

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National Intelligence Daily

**Tuesday
17 January 1984**

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CPAS NID 84-013JX

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17 January 1984

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Contents

25X1

El Salvador: Government Military Successes	2
USSR-Lebanon: Views on an Expanded UN Role	3
Netherlands-US: Prime Minister's Visit	4
UK-USSR-Eastern Europe: Bid To Improve Relations	5
USSR: Personnel Appointments	6
China: Ideological Campaign Deemphasized	7
USSR: Review of Shootdown of Airliner	8

25X1

Israel: More Foreign Currency Controls	11
Yugoslavia: Offers of Financial Assistance	11

25X1

Australia-USSR: Political Talks Announced	12
Ivory Coast: Mounting Problems	13
Malaysia: Investigation of Bank Scandal	13

Special Analysis

USSR-Pakistan-Afghanistan: Prospects for Negotiations	14
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Top Secret

25X1

17 January 1984

25X1

Page Denied

Next 1 Page(s) In Document Denied

Top Secret

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17 January 1984

Top Secret

25X1

EL SALVADOR: Government Military Successes

The Army's morale should be improved by its successful defense of a departmental capital and a key railroad bridge. [redacted]

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Some 300 Army troops in and near Chalatenango city were attacked on Sunday by a guerrilla force of unknown size. According to the US defense attache, the government suffered six killed and 23 wounded, while at least 10 insurgents were killed. The attache reports local units are pursuing the guerrillas, who withdrew to the north.

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Other reports from the defense attache indicate insurgents had earlier attacked government positions near the vital railroad bridge across the Lempa River. The guerrillas pulled back after several short skirmishes, and no government casualties were reported.

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[redacted] As a result of the destruction of the Cuscatlan bridge on 1 January, the road over the dam is a key link to the east.

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The General Staff has approved a plan to strengthen Army forces in the east. According to the defense attache, the 350-man counterinsurgency battalions in San Miguel and Morazan Departments will have their strength increased to about 540, and they also will be given their own mortar sections.

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Comment: The guerrillas probably were trying to duplicate their recent successes at the Cuscatlan bridge and the El Paraiso brigade headquarters.

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The planned force augmentation east of the Lempa—where the war largely has been fought over the past few months—is likely to be one of the first priorities of the newly established armed forces training center. Strengthening the counterinsurgency battalions should permit them to conduct extended field operations and to operate more effectively against the guerrillas.

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USSR-LEBANON: Views on an Expanded UN Role

Moscow has taken a noncommittal position toward recent Western and UN attempts to secure its support for an expanded UN peacekeeping role in Lebanon, but it probably would be more receptive if Syria were to soften its opposition.

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Under Secretary General Urquhart told

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Secretary of State Shultz last week that the Soviets said they would not consider the idea unless they were first consulted by the other permanent members of the Security Council.

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France did approach the USSR during the past month and received only a noncommittal reply. The Lebanese Chargé in Moscow told the US Embassy that two Soviet officials had taken the same noncommittal position recently in separate conversations with him.

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An officer of the Soviet Embassy in Washington, during an appointment last week with Department of State officials, probed for US views on an expanded UN role. He claimed that Moscow does not have a firm position but would defer to the wishes of Syria and the Palestinians.

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Comment: The USSR has long been skeptical about the UN's peacekeeping activities in the Third World, and it is unlikely to support an expanded UN role in Lebanon as long as Syria resists it. Soviet opposition also may reflect a belief that criticism within the contributing countries and internationally will compel the withdrawal of the MNF without any expansion of the UN role.

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Nevertheless, if Syria's position were to soften, Moscow might find an expanded UN peacekeeping role an acceptable way of achieving the withdrawal of US forces from Lebanon. The Soviet Embassy officer may have been probing for some indication of US interest in securing Moscow's cooperation in arranging a broader role for the UN.

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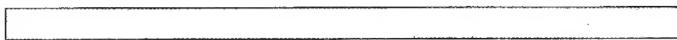
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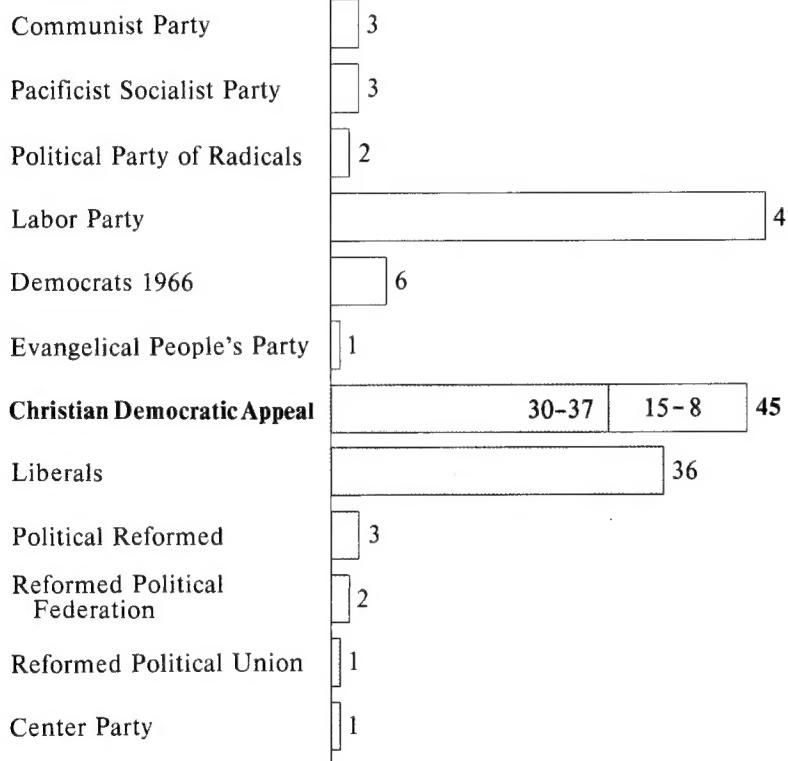
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Netherlands: Parliamentary Balance for INF

Favor deployment  73-80Oppose deployment  70-77



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17 January 1984

Top Secret

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NETHERLANDS-US: Prime Minister's Visit

Prime Minister Lubbers, who arrives in Washington on Thursday, continues to believe that INF is a no-win proposition for the Netherlands.

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Comment: Lubbers has a reputation as a politician wedded to compromise and consensus, but he has improved his domestic standing by taking strong budget-cutting measures and weathering a recent dispute with the trade unions over wage restraint. His tough line on the economy, however, has forced him to expend political capital that makes a forthright stand in favor of INF even more risky for his divided Christian Democrats.

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Lubbers has said a basing decision should be made in June, but he is in a quandary over INF. Most Christian Democrats and their Liberal coalition partners favor deployment, and the Prime Minister himself is determined to remain faithful to NATO commitments.

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The Dutch leader, however, still lacks a parliamentary majority on INF. With a bloc of Christian Democrats opposed to INF, Lubbers fears that even victory on the issue could risk an irrevocable split in a party already troubled by a long-term decline in voter support.

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To achieve an eventual positive decision on INF, Lubbers has embarked on a strategy that implies deployment is inevitable, seeming almost to suggest that a decision will be forced on the government by circumstances beyond its control. Nonetheless, the Prime Minister continues to hope for an arms control agreement that will preclude the need for deployment in the Netherlands, or at least substantially reduce the number of missiles stationed in his country.

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Lubbers has already expressed several "personal" ideas about how to get negotiations back on track. These include delaying the deployment schedule and accommodating in part Soviet views on British and French nuclear forces.

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UK-USSR-EASTERN EUROPE: Bid To Improve Relations

The UK plans to broaden political contacts with the USSR.

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An official at the British Foreign Office told the US Embassy that London probably will end its freeze on high-level discussions with Moscow that has been in effect since the invasion of Afghanistan. As a first step, Foreign Secretary Howe may invite Foreign Minister Gromyko to visit the UK when the two meet in Stockholm this week. In addition, the British believe that NATO should move away from concentration on arms control issues to consideration of the whole range of East-West relations.

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Comment: Prime Minister Thatcher reportedly remains skeptical that resuming consultations with senior Soviet officials will do much to improve bilateral relations, but she now believes that British interests will not benefit if other Allied leaders are given a monopoly of contacts with the Soviets. In particular, she probably hopes that improved ties will lead to increased trade.

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A higher profile in dealings with Eastern Europe also is in keeping with Thatcher's activist style of leadership. Thatcher plans to visit Hungary early next month. If her visit to Budapest goes well, she may try to schedule trips to other East European countries.

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The Prime Minister is aware that more visible contacts with the Soviets, coinciding with INF deployment, would be well received in the UK. Thatcher's hardline reputation gives her freedom of maneuver in dealing with Moscow. A more active British role in East-West relations would undercut opposition claims that she has aligned herself too closely with US policy toward the USSR.

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Opposition leaders Kinnock and Steel are planning to visit Moscow in the near future, and some Tories may urge Thatcher to preempt her rivals by trying to become a mediator between Washington and Moscow. She is unlikely to take such advice, however, because of concern that Moscow might try to use any British role as an honest broker to erect barriers between London and Washington.

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USSR: Personnel Appointments

More than a dozen high-level personnel appointments have been made in the last five weeks. [redacted]

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The appointments—including that of a new deputy premier—have featured the advancement of younger officials and the retirement of the infirm and elderly. The new members of the Council of Ministers, new regional party chiefs, and new Central Committee department officials appointed since the second week of December, all whose ages are known, are in their forties or early or middle fifties.

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A majority of the 85 members of the Council of Ministers are at least in their midsixties. About 30 are in their seventies. [redacted]

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Comment: General Secretary Andropov probably was involved in these personnel moves, because the party Secretariat has the responsibility for approving appointments at this level. None of the new appointees is known to be his protege. The appointments contribute to an appearance of vigorous leadership, however, and the newcomers probably identify themselves with Andropov, believing they owe their promotions to him. [redacted]

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CHINA: Ideological Campaign Deemphasized

The leadership has curtailed the campaign against "spiritual pollution" out of concern that it could damage important economic and political programs.

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A series of public pronouncements from Beijing since early December has placed increasingly tighter limits on the scope of the campaign.

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Comment: It is too early to confirm that the campaign has been concluded, but it at least has been downgraded.

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The campaign appears originally to have been intended to reaffirm the leadership's commitment to ideological orthodoxy while discrediting party authors who have defended ideas that undermine the party's ideological foundation. The results of the effort appear inconclusive, but it probably intimidated voices in the party that are influenced by Western Marxist concepts at the cost of reviving longstanding disputes between reformists and conservatives in the leadership.

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The immediate reasons for the campaign against spiritual pollution, which began three months ago, remains unclear. If Hu Yaobang, the Politburo leader most associated with the party liberals, had recently been in difficulty—as earlier reports indicated—he appears now to have regained some political initiative.

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USSR: Review of Shootdown of Airliner

An article in the January issue of a Soviet Air Force journal suggests that the Soviets are dissatisfied with the performance of air defense personnel during the destruction of the South Korean airliner but that they find no fault with the procedures governing the downing of civil aircraft.

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Colonel General Golubev, chief of the Air Force's Directorate of Combat Training, writes that the interceptor pilot is the key element in missions against intruding aircraft and that under certain circumstances he has to make the final decision on interception. He also criticizes ground commanders who avoid difficult decisions. The article stresses the need for continued vigilance against aircraft that deliberately violate Soviet airspace—as it claimed was done by the South Korean airliner—and the necessity for a quick Soviet reaction.

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Comment: The article appears implicitly to criticize the actions of the air defense personnel without acknowledging Soviet culpability for the incident. It probably is a call for more realistic training that could include giving pilots more flexibility in carrying out the decisions of ground authorities. Pilots normally are under rigid ground control, and a proposal for such a change would be likely to prompt debate.

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Such criticism would be consistent with indications of confusion and delay in deciding on what action to take against the airliner. This delay and the haste that resulted when action finally was taken probably prompted Golubev's emphasis on the need for pilot flexibility and for quick responses in such situations.

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On the other hand, the article seems to reinforce earlier official statements that in the future even airliners identified as off course by error will be shot down as a final resort if they do not respond to Soviet instructions. Earlier this month the Soviets proposed changes to the Chicago Convention on the handling of international air traffic that would assign culpability to the errant airliner, should its violation cause it to be shot down.

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ISRAEL: More Foreign Currency Controls

Finance Minister Cohen-Orgad yesterday announced new restrictions of foreign currency transactions in order to strengthen foreign exchange reserves. According to press reports, Israelis traveling abroad will be allowed to purchase only \$2,000 in foreign exchange—a \$3,000 limit had been imposed on 1 November. Foreign bank accounts will no longer be permitted, and foreign stock holdings—\$700 million according to the Bank of Israel—have to be liquidated within a year. Dealings in gold and gold futures are now prohibited.

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Comment: Cohen-Orgad probably took this action to provide foreign exchange to finance the growing trade deficit without having to draw down foreign exchange reserves. After depleting reserves by about \$150 million last year, Israeli officials probably are afraid that additional reductions in reserves might cause commercial bankers to restrict their lending to Israel. Enforcement of these measures, however, will be difficult.

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YUGOSLAVIA: Offers of Financial Assistance

The US Embassy in Paris reports that Western government creditors agreed in principle last week to refinance on favorable terms all officially backed loans to Yugoslavia that are coming due this year. This refinancing is contingent on Belgrade's first meeting the terms of the IMF for a standby agreement. The major points still in dispute are the IMF's demand that Yugoslavia raise interest rates to the level of inflation and that it centralize control of foreign exchange.

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Comment: The Western governments' offer—in conjunction with a similar offer from commercial banks—gives Yugoslavia a chance to improve its financial position substantially this year. The governments' insistence on the tough IMF criteria suggests strong reservations about Belgrade's ability to manage the economy, which they believe could prevent financial recovery. The regime recently made minor concessions to the IMF, but there is substantial political resistance in Yugoslavia to centralized management of foreign exchange and to higher interest rates. Belgrade ultimately will have to compromise, or jeopardize the recent improvement in relations with its creditors.

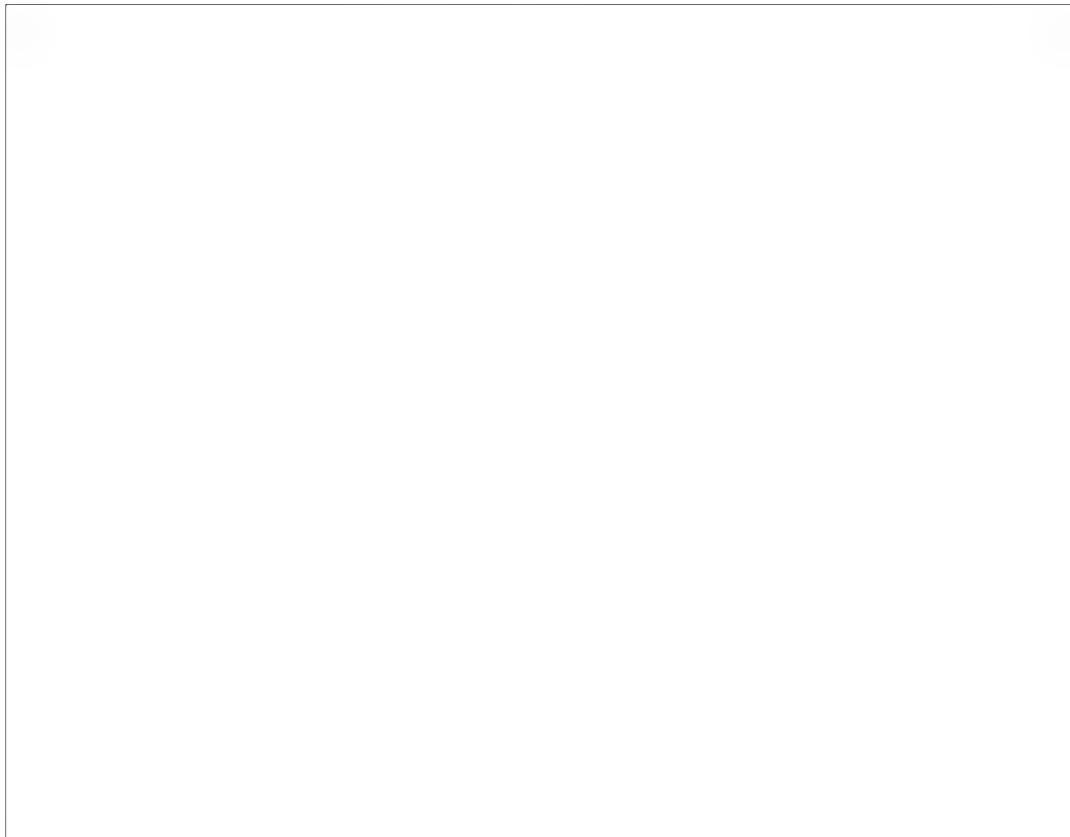
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AUSTRALIA-USSR: Political Talks Announced

The Australian Government has announced it will hold political consultations with the USSR in early March. These will be the first high-level discussions between the two countries since the Soviets invaded Afghanistan.

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Comment: Canberra believes the Soviets will want to focus on Southeast Asia because of recent friction between Australia and ASEAN over the Kampuchean problem. It is likely, however, to use the talks to strengthen trade ties. The Australians may raise the idea of a long-term wheat agreement, which they are anxious to secure with Moscow this year. Since the Hawke government assumed office nearly a year ago, it has resumed cultural, academic, and scientific ties with the USSR and lifted bans on visits by Soviet ships.

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17 January 1984

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IVORY COAST: Mounting Problems

Pro-Western President Houphouet-Boigny is to undergo medical treatment in Europe next month for an unspecified ailment, according to the US Embassy. The 78-year-old leader has consistently refused to name a successor, and the Embassy believes that a leadership struggle may result if he dies or is incapacitated before presidential elections are held next year. Houphouet is concerned that his country's economic troubles, which have prompted austerity measures, could encourage growing opposition to his government. Ivory Coast is the second-largest debtor nation in Sub-Saharan Africa after Nigeria.

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Comment: Political infighting is likely to increase as leading politicians maneuver for position in anticipation of the elections. Additional cuts in government spending and growing unemployment—especially among some 2 million foreign African residents in the country—might provoke social unrest. This could provide Libya with opportunities for meddling and increase the risk of a military takeover.

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MALAYSIA: Investigation of Bank Scandal

Prime Minister Mahathir—who begins his visit to the US today—named a three-man committee last week to conduct a closed-door inquiry into the biggest bank scandal in Malaysia's history. The scandal broke early last year after the Bank Bumiputra's wholly owned subsidiary in Hong Kong made large unsecured loans to three property speculators in Hong Kong. An estimated \$700 million was lost when the property market collapsed in Hong Kong.

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Comment: Mahathir's action is unlikely to stop public speculation that the government leadership is trying to cover up the affair. If officials close to the Prime Minister are implicated, it will increase the odds that he will be challenged by party members before the party elections in May.

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Special Analysis

USSR-PAKISTAN-AFGHANISTAN: Prospects for Negotiations

The regime under General Secretary Andropov has made more use of talks with Pakistan and with the insurgents in Afghanistan as an adjunct to the USSR's four-year military effort in Afghanistan. In recent months, however, the Soviets appear to have concluded that the UN-sponsored indirect talks between Afghanistan and Pakistan were deadlocked and that prospects for a political settlement on their terms were dim. Moscow has been somewhat more successful in its attempts to negotiate limited cease-fires with insurgent leaders in Afghanistan. These efforts are likely to continue in the months ahead.

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The military and political stalemate in Afghanistan was high on Andropov's agenda when he took office in the fall of 1982. At Brezhnev's funeral, he singled out both Afghan President Babrak and Pakistani President Zia for private meetings. Soviet spokesmen subsequently sought to spread the impression Andropov was interested in a political settlement.

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Reporting from UN officials suggests that, even before Brezhnev died, Moscow had decided to encourage an impression of progress in the UN talks in hopes of reducing criticism of Soviet policy at the Nonaligned Summit in New Delhi last March. Movement in these talks continued after the summit, and the USSR's Afghan clients made a number of procedural concessions that helped keep the dialogue alive.

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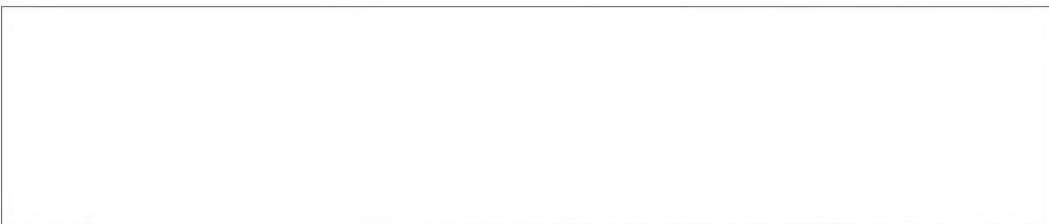
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[redacted] there is a new resignation in Moscow to a long-term military effort. A party letter on the outlook for Afghanistan circulating in the USSR early this fall ignored the UN talks entirely. It asserted that the USSR would be in Afghanistan several decades or longer—even though it claimed the number of Soviet troops would not be increased. [redacted]

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Prospects

The increasing effectiveness of the insurgents in recent months—and Moscow's reluctance to augment its forces in Afghanistan—probably will prompt the Soviets to continue their efforts to negotiate limited truces. The negotiations, however, are unlikely to reduce insurgent activity substantially in the short term. The longer term outlook depends on the amount of support the resistance forces receive from Pakistan.

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The Soviets will try to keep the UN talks alive, if only to give credibility to their professions of interest in a political settlement. They apparently see the negotiations as a useful channel in the event internal developments in Pakistan eventually lead to a more accommodating policy in Islamabad. There are no signs that the Soviets are prepared to consider a compromise settlement that would change the orientation of the regime in Kabul.

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